

Message Text

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PAGE 01 CARACA 01952 212125Z

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 FEA-01 ERDA-05 AID-05 CEA-01

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 7730

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TAGS: ENRG, VE

SUBJ: PETROLEUM PRODUCTION AND RESERVES

REF: (A) STATE 36622; (B) CARACAS 1569; (C) CARACAS 1489;

(D) CARACAS 0973; (E) CARACAS 0915

1. EMBASSY CONCURS THAT MARKET FACTORS ARE PRIMARY REASON FOR CUTBACK IN VENEZUELAN PETROLEUM PRODUCTION. IMPORTANT SECONDARY REASON, HOWEVER, WAS IMPOSITION IN APRIL 1974 OF RIGID REGULATIONS BY MINISTRY OF MINES AND HYDROCARBONS GOVERNING AMOUNT OF ASSOCIATED NATURAL GAS THAT COULD BE VENTED OR FLARED. THIS LED TO ALMOST IMMEDIATE REDUCTION OF 200,000 B/D, AS MENE GRANDE AND SUN OIL AMONG OTHERS, WERE FORCED TO SHUT IN CERTAIN PRODUCING FIELDS PENDING INSTALLATION OF GAS RE-INJECTION FACILITIES. SEVERAL OF THESE FACILITIES ARE STILL UNDER CONSTRUCTION.

2. REDUCTIONS OF 100,000 B/D IN AUGUST 1974 AND JUST ANNOUNCED 200,000 B/D (REFS B AND C) WERE AT INSTIGATION OF CREOLE AND SHELL OIL WHO APPARENTLY JUSTIFIED TO MINISTRY THEY COULD NOT DISPOSE OF THE OIL. CREOLE AND SHELL REPORTEDLY SPLIT THE AUGUST

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PAGE 02 CARACA 01952 212125Z

1974 REDUCTION, WHILE CREOLE IS ACCOUNTING FOR THE BULK OF THE

CURRENT REDUCTION. CREOLE PRODUCTION HAS CECLINED FROM MID-NOVEMBER 1974 LEVEL OF 1,245,000 B/D TO 1,100,000 B/D AS OF FEBRUARY 19.

3. ONE RELIABLE OIL COMPANY SOURCE SUMMED IT UP BY COMMENT THAT CONSERVATION WAS PRIMARY REASON FOR PRODUCTION DECLINE IN FIRST HALF OF 1974, WITH COMPANIES PUSHING FOR AUTHORIZATION TO INCREASE PRODUCTION AND THE GOV RESTRAINING THEM; WHILE MARKET FACTORS ARE NOW PRIMARY REASON FOR DECLINE, WITH OIL COMPANIES TAKING THE LEAD IN CUTTING BACK PRODUCTION. ON FEBRUARY 20, THE FINANCE MINISTRY ANNOUNCED REVISED ESTIMATES OF 1975 OIL TAX RECEIPTS BASED ON DATA SUBMITTED BY COMPANIES. NEW ESTIMATE IS APPROXIMATELY \$7.85 BILLION, OR SOME \$150 MILLION LESS THAN ORIGINALLY PROJECTED BY THE COMPANIES AND GOV. THIS ESTIMATE BASED ON NEW LOWER PRODUCTION LEVEL WHICH MINISTRY EXPECTS TO STABILIZE AT AVERAGE LEVEL OF 2.4 MILLION B/D. SAME OIL SOURCE CONFIRMED THAT HIS COMPANY SUBMITTED LOWER PRODUCTION ESTIMATE FOR 1975 ON FEBRUARY 14, WHEN ENTIRE INDUSTRY WAS REQUIRED TO UPDATE NOVEMBER 1974 PRELIMINARY ESTIMATES FOR 1975. SOURCE SAID THAT HE WAS AWARE OF SOME OTHER COMPANIES WHO ALSO REVISED DOWNWARD THEIR 1975 PRODUCTION ESTIMATES, AND HIS OPINION IS THAT 1975 PRODUCTION WILL BE LESS THAN 2.4 MILLION B/D. AVERAGE 1975 PRODUCTION THROUGH FEBRUARY 12, AS PUBLISHED BY MINES MINISTRY, WAS 2,690,638 B/D.

4. FOR DOMESTIC POLITICAL REASONS, GOV CANNOT IDENTIFY PRODUCTION CUTBACKS AS RESULT OF MARKET FACTORS, NOR PERMIT PUBLIC IMPRESSION THAT PRIVATE OIL COMPANIES HAVE ANY ROLE IN DETERMINING PRODUCTION LEVELS. THERE WAS A SUSTAINED PUBLIC FLAP BETWEEN THE ADECO GOVERNMENT AND THE OPPOSITION COPEYANO PARTY OVER THE RECENT OIL TAX ADJUSTMENTS, IN WHICH THE GOVERNMENT WAS FORCED TO DENY IT HAD REDUCED ANY OIL PRICES, WHEN IN FACT IT DID FOR NAPHTHA AND CERTAIN OTHER PRODUCTS. TEHCNICALLY, THE GOVERNMENT WAS TRUTHFUL IN THAT ITS OVERALL TAX TAKE INCREASED.

5. THEREFORE, GOV PUBLICLY JUSTIFIES ALL PRODUCTION REDUCTIONS ON CONSERVATION GROUNDS. THERE IS AN IMPORTANT AND VERY INFLUENTIAL ELEMENT, LED BY JUAN PABLO PEREZ ALFONZO, WHO KEEP CONSTANT PRESSURE ON THE GOV TO DRASTICALLY REDUCE OIL PRODUCTION. PRESIDENT PEREZ HAS PRIVATELY STATED ON VARIOUS OCCASIONS THAT HE WOULD LIKE TO SUBSTANTIALLY CUT PRODUCTION FOR THE BENEFIT OF FUTURE GENERATIONS. BUT, INSTEAD, PRIORITY HAS BEEN GIVEN TO SUSTAINING PRODUCTION LIMITED OFFICIAL USE

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PAGE 03 CARACA 01952 212125Z

TION AT CURRENT LEVELS IN ORDER TO GENERATE REVENUE FOR AMBITIOUS DEVELOPMENT PROGRAMS. AS STATED IN REF E, PARAGRAPH EIGHT, A SENIOR MINISTRY SOURCE HAS FRANKLY ADMITTED THAT THE LATEST PRODUCTION

CUT WAS DUE TO MARKET FACTORS.

6. TO BE JUST, GOV SHOULD ALSO BE GIVEN BENEFIT OF DOUBT THAT ITS POLICY OF MAINTAINING SUPPLIES TO TRADITIONAL MARKETS

SUCH AS UNITED STATES AND CANADA IS VALID, AND ANOTHER REASON WHY
DRASTIC PRODUCTION CUTS FOR CONSERVATION REASONS ARE NOT CARRIED OUT.

7. WITH RESPECT TO PETROLEUM RESERVES, MINISTRY OF MINES AND
HYDROCARBONS DID ANNOUNCY (REF D) OFFICIAL ESTIMATES OF RESERVES
WITHIN THE AUTHORIZED CONCESSION AREAS HAD BEEN INCREASED AT THE
BEGINNING OF 1975 BY 4.756 BILLION BARRELS, OR 34.43 PERCENT, TO
NEW LEVEL OF 18.568 BILLION BARRELS. MINISTER DESCRIBED THIS AS
INCREASE OF RECOVERABLE RESERVES WHICH ARE NOW ECONOMICALLY
FEASIBLE DUE TO CURRENT WOULD PRICES. NEW ESTIMATE INCLUDES OIL
NOW BEING DRILLED IN CRETACEOUS ZONE OF MARACAIBO LAKE BY SEVERAL
COMPANIES, BUT PROBABLY NOT OIL THAT HAS BEEN FOUND TO DATE IN
SOUTH LAKE SERVICE CONTACT AREAS. ESTIMATE DOES NOT RPT NOT COVER
ORINOCO TAR BELT HEAVY OIL RESERVES. NEW ESTIMATE IS PROBABLY
VALID FROM GOV POINT OF VIEW, BUT LESS VALID FROM PRIVATE OIL
COMPANY VIEWPOINT UNDER PRESENT TAX STRUCTURE, WHICH EXPLAINS IN
PART REDUCTION IN OIL COMPANY 1975 PRODUCTION ESTIMATES. ON THIS
LATTER POINT, HOWEVER, GOV HAS PROMISED OIL COMPANIES THEY CAN
DEDUCT FROM TAXES EVERY CENT OF NEW INVESTMENT THEY CHOOSE TO MAKE
DURING 1975. ONE OIL COMPANY RECEIVED LETTER FEBRUARY 19 FROM
MINES MINISTRY CONFIRMING THIS, AND CLARIFYING THAT WILDCAT
DRILLING AND OTHER EXPLORATION EXPENSES WOULD BE DEDUCTIBLE UNDER
NEW INVESTMENT PROGRAM.
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